



# AMERICA'S FISCAL & ECONOMIC FUTURE: AVERTING THE FISCAL CLIFF WITH A RENEWED FOCUS ON SPENDING REFORM

U.S. Senator John Thune

- I. CONSEQUENCES OF INACTION
- II. OVERVIEW OF AMERICAN TAXPAYER RELIEF ACT
- III. MOVING FORWARD ON SPENDING CUTS

# CONSEQUENCES OF INACTION

- ▶ The American people were facing on Jan. 1st:
  - ▶ The largest tax increase in history - \$4.5 trillion
  - ▶ Higher income taxes on EVERY taxpayer
  - ▶ Massive “Death tax” expansion – impacting more than half of all SD farms.
  - ▶ Higher taxes on investments
  - ▶ Higher taxes on families

# CONSEQUENCES OF INACTION

- ▶ The non-partisan Congressional Budget Office (CBO) stated the American economy was facing:
  - ▶ A return to unemployment above 9 percent
  - ▶ A recession in the first half of 2013
  - ▶ Increased government spending for unemployment insurance and food stamps

# CONSEQUENCES OF INACTION

- Over 400,000 South Dakota tax filers would have faced higher income taxes starting in 2013 without an agreement to avert the fiscal cliff.

SD Taxpayers by Income and Family Status	Annual Fiscal Cliff Income Tax Increases Starting in 2013*
Family with two children and income of \$50,000	Over \$2,000 Increase
Single taxpayer with no children and a salary of \$75,000	Over \$1,000 Increase
Family with two children and income of \$100,000	Over \$3,000 Increase (Over \$6,000 without AMT Fix)

Source: The Tax Foundation (non-partisan), Heritage Foundation  
\*Excludes Payroll Tax

# TAX RELIEF BILL – FISCAL CLIFF

- ▶ Protects more than 99% of South Dakota taxpayers
- ▶ Rescues over 98% of small business owners from higher taxes
- ▶ Protects South Dakota's family farms and businesses from the crippling death tax
- ▶ Makes permanent the \$1,000 Child Tax Credit
- ▶ Protects middle-income families from the Alternative Minimum Tax (AMT)

# KEEPING TAX RATES LOW – CREATING CERTAINTY

- ▶ Makes permanent:
  - ▶ Income tax rates for taxpayers with incomes below \$400,000 (single) and \$450,000 (married)
  - ▶ 15 percent tax rate on capital gains and dividends for taxpayers below \$400,000 and \$450,000
  - ▶ The \$5M per spouse exemption from the death tax (at a 40 percent top rate)

# PROTECTING FAMILY FARMS AND BUSINESSES FROM THE DEATH TAX

## Before

- ▶ Death tax would revert to exemption amount of \$1 million and a top rate of 55%
- ▶ More than 60% of all crop farms in South Dakota would have been exposed to the death tax

## After

- ▶ Protect 85% of South Dakota farms from the destructive death tax



# THE CHOICE

ALLOW A MASSIVE TAX INCREASE ON  
ALL TAXPAYERS

OR

PROTECT 99% OF SOUTH DAKOTA  
TAXPAYERS FROM TAX INCREASES

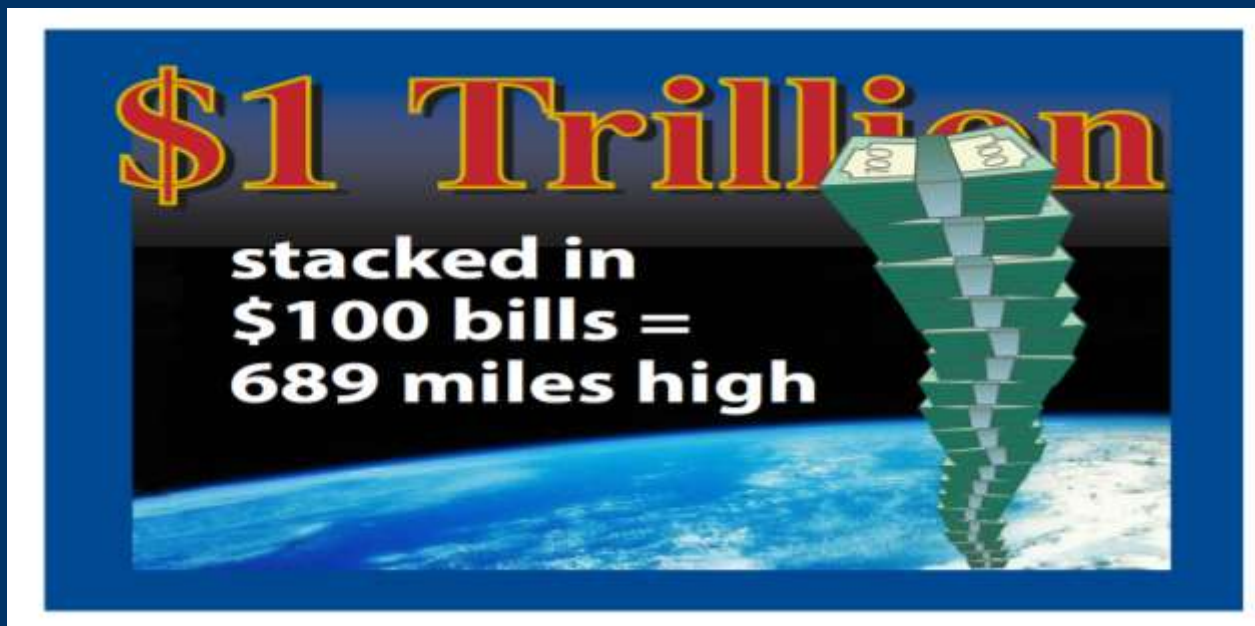
# MOVING FORWARD ON SPENDING CUTS

- ▶ President Obama's tax increases on the "so-called rich" fund the government this year for less than 1 week.
- ▶ Congress and the Administration must now focus on the real issue -
  - ▶ Reduce spending and reform entitlements.

# LACK OF A FORMAL BUDGET

- ▶ Passing a responsible budget is a critical part of spending restraint
- ▶ Senate has failed to pass a formal budget since 2009
- ▶ During this time, the deficit has exceeded \$1 trillion four years in a row

# HOW MUCH IS \$1 TRILLION?



Driving from Watertown to Denver –  
Approximately 690 Miles

# HOW MUCH IS \$1 TRILLION?

**If a business lost \$1 million dollars per day, each and every day since Jesus was born, it still wouldn't have lost a trillion.**

**It would take another 728 years before one trillion dollars was reached.**

# Administration's Policies Have Accumulated Record Levels of Debt

It Took 43 presidents 232 Years to Build Up \$6.3 Trillion in Publicly-Held Federal Debt



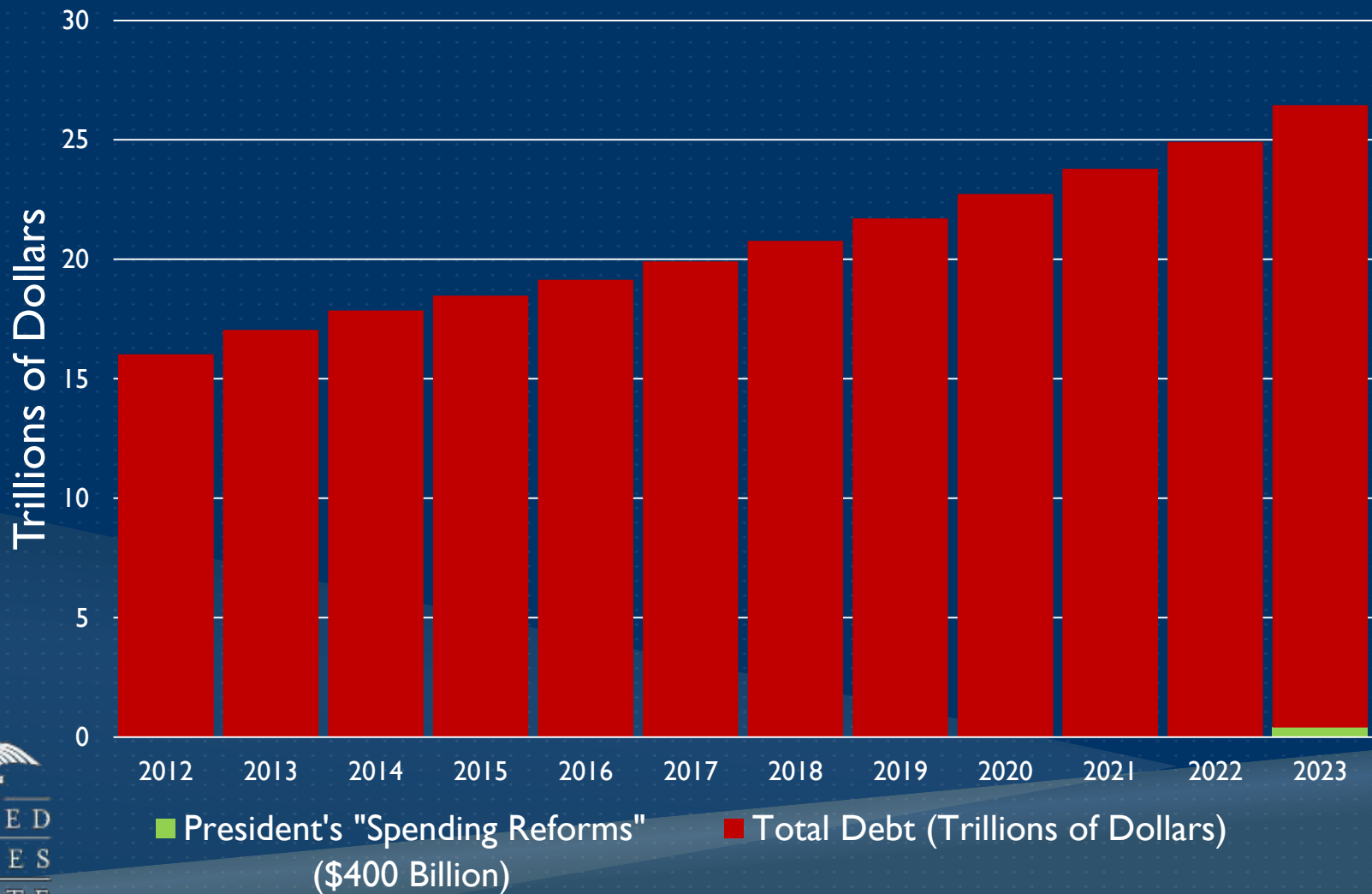
232 Years  
(President Washington –  
President Bush)



First Four Years of  
Obama's Presidency \*

\*Based on actual deficits Jan 21, 2009 – January 7, 2013  
Source: SBC Republican Staff, CBO, OMB, U.S. Treasury

# TOTAL DEBT TO INCREASE \$10 TRILLION OVER NEXT 10 YEARS



# U.S. ON PATH TO FISCAL INSOLVENCY

## *Debt as Percentage of Overall Economy*

- ▶ Greece: 163%
- ▶ Italy: 120%
- ▶ Portugal: 106%
- ▶ Ireland: 105%
- ▶ U.S.: **102%**
- ▶ Spain: 85%



Source: IMF, based on 2011 data



# EXPERTS AGREE: WE MUST REFORM ENTITLEMENTS

- ▶ “No serious (plan) can exclude entitlements.” – Washington Post Editorial Board
- ▶ “Federal health care spending represents our single largest fiscal challenge over the long-run.” – Simpson-Bowles Fiscal Commission Report

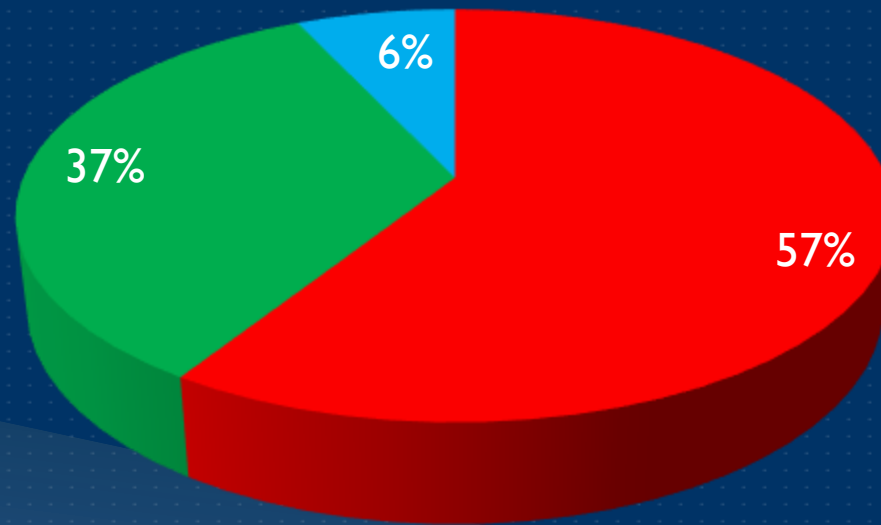
# MEDICARE AND SOCIAL SECURITY GOING BANKRUPT

- ▶ Medicare will be insolvent by 2024 without reform. - Medicare Trustees (which includes Obama Cabinet officials)
- ▶ Social Security has been in a *cash deficit* for the past two years. — Social Security Trustees

# MANDATORY SPENDING IS OUR LARGEST EXPENDITURE

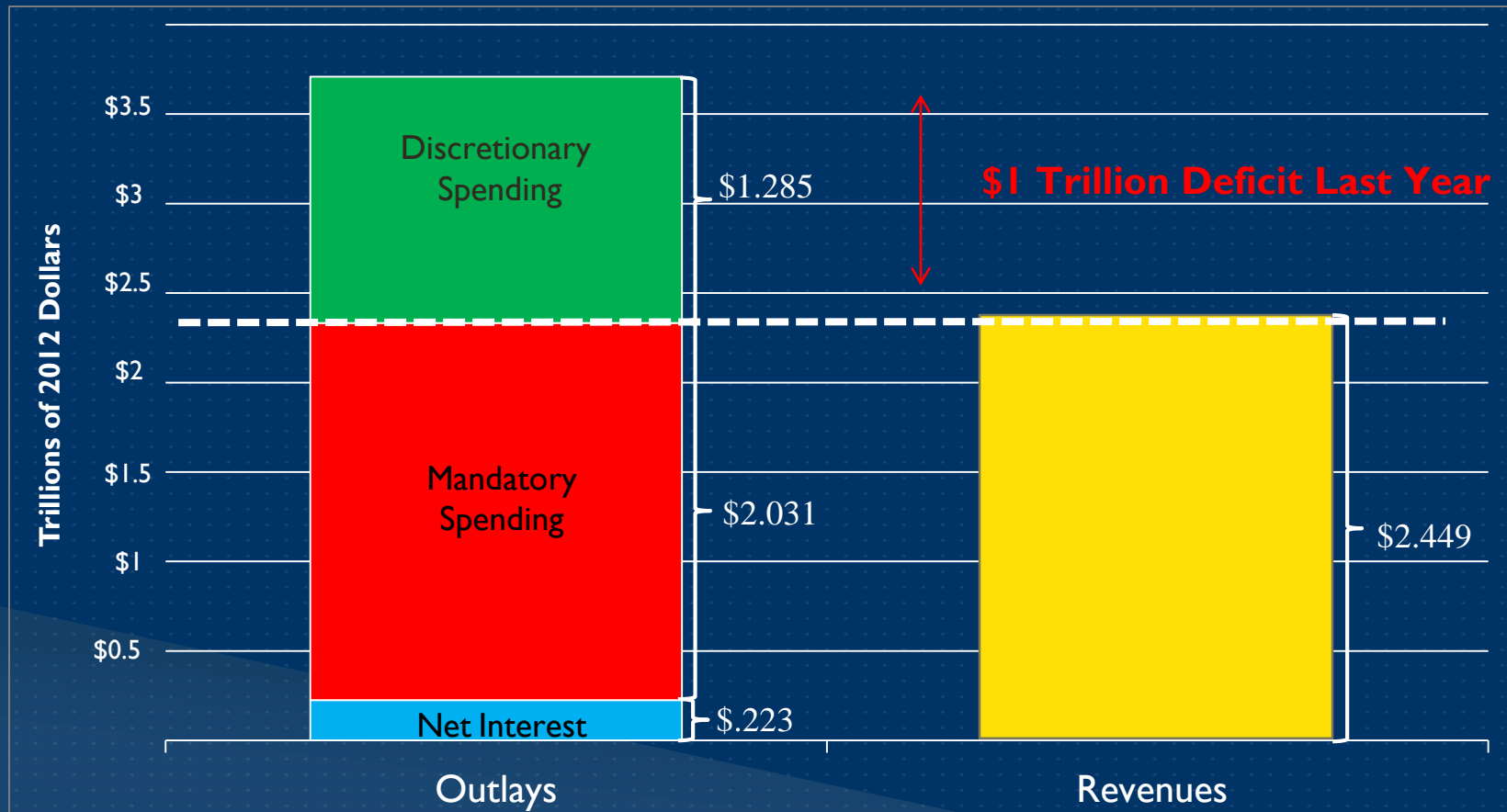
2012 Total Federal Spending: \$3.54 Trillion

■ Mandatory ■ Discretionary ■ Interest

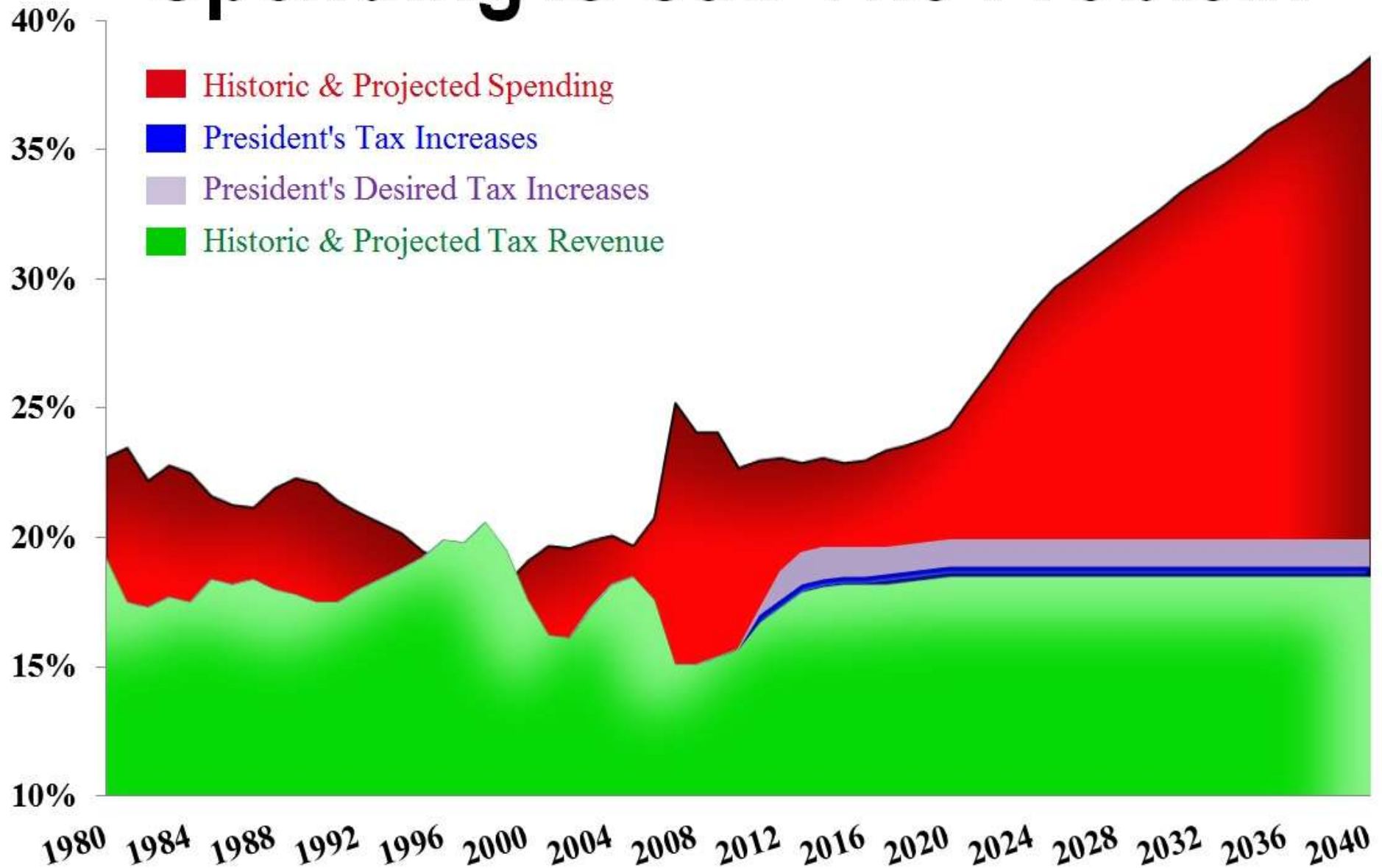


Source: CBO

# MANDATORY SPENDING IS CONSUMING MAJORITY OF TAX DOLLARS



# Spending Is *Still* The Problem



Source: Senate Budget Committee Ranking Member Jeff Sessions' Republican staff calculations of data from OMB and CBO.

# FEDERAL SPENDING IS ON AUTOPILOT

- ▶ America faces a debt crisis, driven by mandatory entitlement spending
- ▶ Congress has opportunities to enact meaningful spending reforms:
  - ▶ Reprioritizing federal programs and eliminating waste, fraud, and abuse
  - ▶ Dollar-for-dollar savings when raising the federal debt limit

# NO BUDGET NO PAY

- ▶ Congress recently increased the debt limit through May 18, 2013
- ▶ If Congress does not pass a budget by April 15, pay is withheld
- ▶ Passing a budget should be the first step toward tax and entitlement reform

# DEBT LIMIT HISTORY

- ▶ Nearly every significant deficit reduction law in the past 27 years has been linked to a debt limit debate
- ▶ President Obama's call for unlimited authority to raise debt limit without Congressional approval violates Article I of the Constitution.
  - ▶ Only Congress can "borrow money on the credit of the United States."
- ▶ The national debt crisis is avoidable, and it starts with real savings attached to a long-term debt limit increase.



# BIPARTISAN FISCAL REFORM SOLUTIONS

- ▶ Accurately Measure Inflation (Chained CPI)
- ▶ Medicare: Offer Choices and Greater Competition
- ▶ Medicare: Phased in Age Adjustment
- ▶ Medicare and Social Security: Income Testing
- ▶ Medicaid: Allow States Flexibility To Meet Needs
- ▶ Reform and Reprioritize Government Programs
- ▶ Fundamental Tax Reform



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